

FISCAL NOTE

Bill #: SB0012 **Title:** Stop reduction of personal property tax
Primary Sponsor: Harrington, D **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
Net Impact on General Fund Balance:	0	0

- | | |
|---|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. The proposal will affect tax year 2004 and beyond.
2. The proposal eliminates the phaseout of property tax on class 8 business equipment. Currently, if in any given year beginning with tax year 2004, the percent growth in inflation-adjusted Montana wage and salary income is at-least 2.85% from the prior year, then the tax rate for class 8 property is reduced by 1% each year until the tax rate reaches zero.
3. Since the property tax revenue estimate for the biennium accepted by The Revenue and Transportation Committee does not include any phaseout of class 8 property, it has no impact to current biennium (*estimated*) revenues.
4. Under SB12 there are no administrative cost impacts to the Department of Revenue.
5. However, under current law, if inflation-adjusted Montana wage and salary income is at-least 2.85% from the prior year, then real revenue reductions would exist:

The impact of the Class 8 trigger being hit.

The following analysis estimates the impact of reducing the tax rate on Class 8 (business equipment) property. Current law, 15-5-138 MCA, contains a trigger mechanism that if hit will reduce the tax rate of Class 8 from 3% to 0% over a three-year period.

The first table assumes the trigger for the tax rate reduction is first met in tax year 2004. This is the earliest year that the trigger could be met. The tax rate would be 2% for tax year 2004, 1% for tax year 2005, and then 0% for tax year 2006 and beyond. It is estimated that property tax revenue would be reduced beginning in fiscal year 2004. The estimated reductions are; \$7,203,710 in fiscal year 2004; \$26,708,324 in fiscal year 2005; \$47,684,886 in fiscal year 2006; and eventually reaching full impact of \$62,160,566 in fiscal year 2007. The growth in the estimate for years beyond fiscal year 2007 reflect the growth of class 8 property. Stating the

Fiscal Note Request SB0012, As Introduced

(continued)

above figures as reduced property tax revenue is synonymous as stating the figures as property tax savings paid by owners of class 8 property.

The tables also list the estimated property tax revenue reduction for state government. If the state mill levies remain fixed at their current levels, the estimated reduction in revenues would actually be realized. It is most likely that the estimated property tax revenue reductions listed for local governments and local schools, unless replaced with alternative revenue, would be offset by higher mill levies, therefore keeping property tax revenues at current law levels.

The second table on the sheet lists the impact of the class 8 tax rate reduction beginning in tax year 2005. The impacts are similar to those listed in the first table. The difference being that the impacts are delayed one year and the impacts are slightly larger due to growth in class 8 property.

The tax rate for class 12 property is 4.02% in tax year 2002. The tax rate for class 12 is annually calculated. It is a weighted average tax rate reflecting the average of tax rates applied to commercial and industrial property in Montana. Included in the calculation of the class 12 tax rate is the market and taxable value of class 8 property. The inclusion of class 8 at a 3% tax rate results in the class 12 tax rate being pulled down. Including classes 9 and 13 at tax rates of 12% and 6% respectively result in the class 12 tax rate being pulled up.

Under the scenario of the class 8 tax rate being reduced to 2%, then 1%, and eventually to 0%, the class 12 tax rate would initially be reduced for a couple of years due to the reduced rates of 2% and 1% for class 8 pulling the class 12 tax rate down. However, once the tax rate for class 8 reaches is 0%, class 8 would no longer be included in calculating the class 12 tax rate. If the tax rate for class 8 were reduced, the resulting tax rate for class 12 would be 3.57% (class 8 at 2%), 2.67% (class 8 at 1%), and then 4.385 (class 8 at 0%). This assumes that the tax rates for classes of property remaining in the calculation do not change.

Estimated Impact of Reducing the Tax Rate on Class 8 Property									
Trigger Hit in TY04 (First Year Possible)									
	Taxable Value			Estimated Reduction in Property Tax Revenue					
	Trigger Not Hit	Triggered	Difference	State 95 Mills	State 6 Mills	Local Govt 182 Mills	Local Schools 163 Mills	Total	
FY03	120,057,884	120,057,884	0	0	0	0	0	0	
FY04	124,620,084	108,468,268	(16,151,816)	(1,534,423)	(96,911)	(2,939,631)	(2,632,746)	(7,203,710)	
FY05	129,355,647	69,471,513	(59,884,135)	(5,688,993)	(359,305)	(10,898,912)	(9,761,114)	(26,708,324)	
FY06	134,271,162	27,354,376	(106,916,786)	(10,157,095)	(641,501)	(19,458,855)	(17,427,436)	(47,684,886)	
FY07	139,373,466	0	(139,373,466)	(13,240,479)	(836,241)	(25,365,971)	(22,717,875)	(62,160,566)	
FY08	144,669,658	0	(144,669,658)	(13,743,617)	(868,018)	(26,329,878)	(23,581,154)	(64,522,667)	
Trigger Hit in TY05 (Second Year Possible)									
	Taxable Value			Estimated Reduction in Property Tax Revenue					
	Trigger Not Hit	Triggered	Difference	State 95 Mills	State 6 Mills	Local Govt 182 Mills	Local Schools 163 Mills	Total	
FY03	120,057,884	120,057,884	0	0	0	0	0	0	
FY04	124,620,084	124,620,084	0	0	0	0	0	0	
FY05	129,355,647	112,590,062	(16,765,585)	(1,592,731)	(100,594)	(3,051,337)	(2,732,790)	(7,477,451)	
FY06	134,271,162	72,111,430	(62,159,732)	(5,905,175)	(372,958)	(11,313,071)	(10,132,036)	(27,723,240)	
FY07	139,373,466	28,393,843	(110,979,623)	(10,543,064)	(665,878)	(20,198,291)	(18,089,679)	(49,496,912)	
FY08	144,669,658	0	(144,669,658)	(13,743,617)	(868,018)	(26,329,878)	(23,581,154)	(64,522,667)	

Fiscal Note Request SB0012, As Introduced
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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
See Assumptions.

LONG-RANGE IMPACTS:
See Assumptions.